AUSTRALIAN STOCK EXCHANGE
IAG000070

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4 June 2003

IAG
Insurance
Australia
Group

Ms Pam Ross
Manager, Company Announcements Office
Australian Stock Exchange Limited
Level 4, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

By facsimile: 1900 999 279

Dear Ms Ross

INSURANCE AUSTRALIA GROUP LIMITED ('IAG')

Market Update Briefing

Further to the Company's announcement this morning in relation to the above matter, please find enclosed Parts 3 and 4 of the Market Update Briefing.

This now completes the lodgement of the above document.

Yours sincerely

Glenn Revell
Company Secretary

Attachment (51 pages)

Part 3

IAG Insurance Australia Group

Reinvigorating our customer focus

Karyn Baylis
Group Executive, Sales & Marketing

4 June 2003

IAG Insurance Australia Group

Overview

- Background
- What do customers really want?
- How will we deliver?
  - Our strategy for delivery by 2005
  - FY03 deliverables
  - Getting it Right
- Customer and people benefits

Background & rationale

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Rationale

- Our current customer retention & acquisition performance is good, but pressure will continue to increase
- As the clear number one player, we are the main target for our competitors
- Retention is typically difficult during periods of integration
- Experience in US and Europe shows customers are becoming more disloyal, even in one stop shops
- There is a loss of trust from Australian consumers generally, particularly with regard to large corporations
- Australian consumers feel as if service is slipping, pricing is "tricky"

Objectives

- Respond to the needs of customers
- Improve retention and cross-selling through a customer-led customer experience vs product – led offers
- Create step change differentiation between IAG and its competitors
- While preserving risk/pricing superiority

What do our customers really want?

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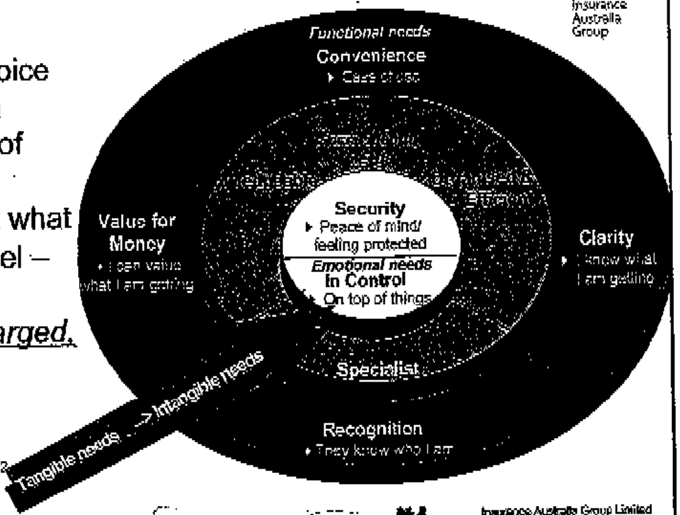
Customer's insurance choice is driven by a combination of needs and is largely about what customers feel – *they make rationally charged, emotional decisions*



Source: Market Research 2002

What do our customers really want?

What we deliver

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Functional benefits	Emotional benefits
The tangible supports which provide the reason for the customer to believe in the proposition	The emotional reward derived from the experience of the brand. How customers feel when buying or experiencing the brand

'Help me with the basics'

- Make it easier to buy and claim
- Efficient service
- Affordable prices
- Prompt payment of claims
- Stand by me in an emergency
- Financially stable

'Help me beyond the claim'

- Genuinely help me
- Give me benefits everyday, not just when I claim
- Simple, easy to understand and right cover
- Sound stable company
- Knowledgeable, approachable staff
- Understand our relationship, acknowledge me and reward my loyalty
- Honour my claims
- Contribute to my community

How will we deliver?

A phased approach in our delivery

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- **Phase 1:** Operational efficiency and capability (to June 2003)
- **Phase 2:** Quality customer service improvements (behavioural & process) (to June 2004)
- **Phase 3:** Channel enhancements / service differentiation / segmented offerings / customer recognition and relationship management (2005)

How will we deliver?

Critical success factors

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STAFF BEHAVIOURS...

- Recognising the customer as a person and as a customer
- Speaking clearly
- Being friendly and helpful
- Taking the time/being patient
- Actively listening/taking an interest
- Knowing the product
- Following up as promised
- Showing empathy when customer claims

PROCESSES...

- Easy to get through to a person
- Quick to get through to a person
- A clear, 'intuitive' process to purchase or renew
- Explain the process
- Easy to understand brochures and policies
- A clear process to resolve problems and claims
- Convenient claiming - as streamlined as possible
- Dealing with one person when claiming

Source: Customer Research Results July 2002

What have we delivered?

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- New operating model
  - Service
  - Sales
  - Resolution
- Major productivity drive in last 12 months
  - Productivity per FTE up by over 10%

Improved renewal rates

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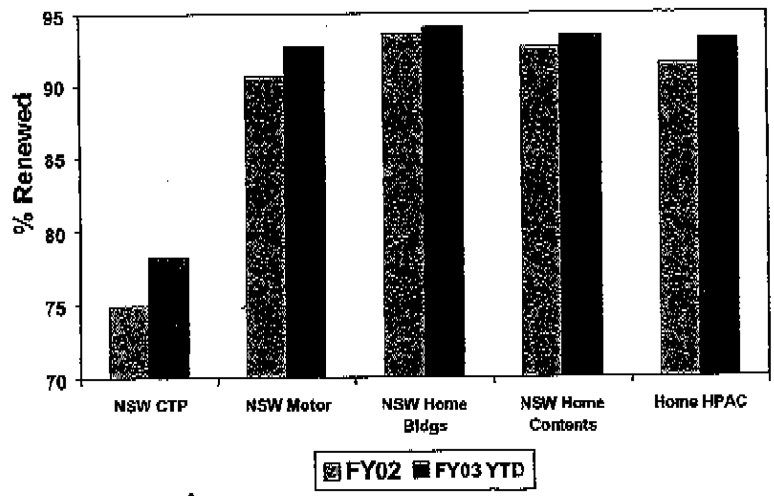

Increased claims satisfaction

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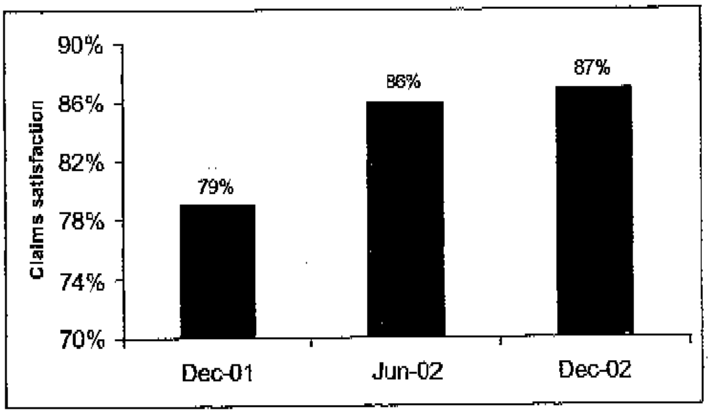
NRMA/SGIO/SGIC



Reduced customer complaints

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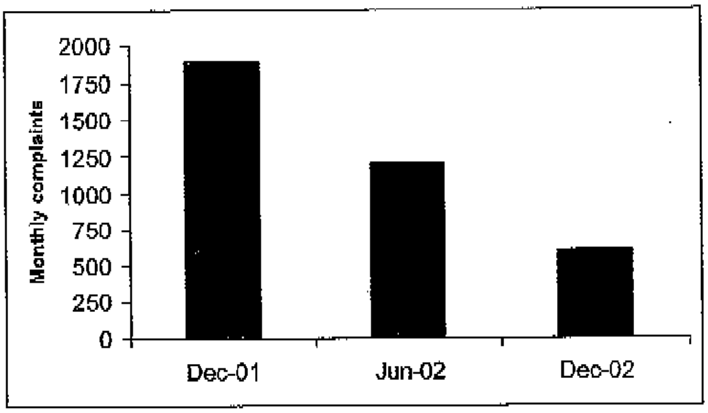

What have we delivered?

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"You can really only manage service quality [help] through culture because you can't be there during every transaction"

Benjamin Schneider and David E Bowen
Winning the Service Game

- Comprehensive customer research - completed
- Staff developed service standards & service performance monitoring

Service standards – committed to by our customer contact staff

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To help our customers I will:

1) Make myself available
2) Address our customers' needs in an accurate and timely manner
3) Acknowledge our customer as an individual and recognise their ongoing relationship with IAG where appropriate
4) Interact to build rapport and minimise periods of silence throughout the interaction
5) Promote the benefits of IAG to influence their choice
6) Take responsibility to stay fully informed about all relevant products and services
7) Give accurate information in a clear and concise manner and confirm our customers' needs have been met
8) Take responsibility for completing my part of the interaction and ensure any handover is completed appropriately

I will proudly represent and uphold the professional image of IAG at work and in the community

Service performance monitoring

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Standard: I will promote the benefits of purchasing IAG products

Question: How well did they explain the benefits of choosing their policy?

Customer informs us which experience they had	Performance ~~score~~
~~Staff proactively explained the benefits of their policy~~	
~~Staff explained the benefits when asked~~	
~~Staff couldn't explain the benefits of their policy~~	

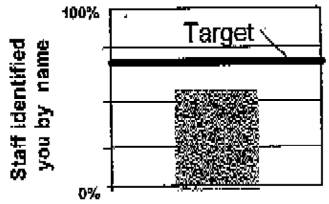
* What customers want is to have the benefits explained proactively

Service performance monitoring

Standard: I will acknowledge each customer as an individual & recognise their relationship with IAG (where appropriate)

Behaviours:

- Friendly & professional greeting
- Respect, courtesy, good manners
- Eye contact
- Treat customer as individual
- Use customer's name



Customers' critical success factor

= **Recognition**

What have we delivered?

"You can really only manage service quality [help] through culture because you can't be there during every transaction"

Benjamin Schneider and David E Bowen
Winning the Service Game

- Comprehensive customer research - completed
- Staff developed service standards & service performance monitoring
- Conducted face-to-face sessions with customers
- Clarified managers roles / coaching style
- Developed reward and recognition programme (rewardhelp)

Reward and recognition

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rewardhelp IAG

- Pilot programme June 2003
  - Sales & Marketing
  - Personal Insurance
- Company-wide launch 2004

What have we delivered?

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"You can really only manage service quality [help] through culture because you can't be there during every transaction"

Benjamin Schneider and David E Bowen
Winning the Service Game

- Comprehensive customer research - completed
- Staff developed service standards & service performance monitoring
- Conducted face-to face sessions with customers
- Clarified managers roles / coaching style
- Developed reward and recognition programme (rewardhelp)
- Realigned performance management and incentive strategy

Getting it Right

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When we started

- Complex & inconsistent processes
- Product-centric, rather than customer-centric business focus
- Manufacturing platform driving complexity
- Business silos not encouraging cross functional behaviour

Getting it Right

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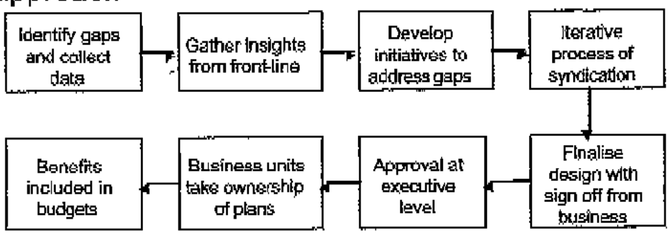
- Insurance Australia Group enterprise wide redesign that will:
  - Deliver process and product improvements to benefit our people and customers
  - Reduce inefficiencies and costs of servicing
  - Increase revenue opportunities
  - Build a continuous improvement capability and establish a cross-functional working approach
- Scope:
  - All customer facing and manufacturing areas of the business

Getting it Right

IAG Insurance Australia Group

- Aston Associates facilitated continuous improvement design and implementation process
- Design delivers process improvements that take an end-to-end view of customer interactions; a continuous improvement & cross functional approach



Getting it Right

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Phase 1: July 2002 – January 2003

- 1,300 recommendations from our people
- Engagement at all levels of the organisation
- 34 senior managers formed project design team
- Sponsorship by CEO and four Group Executives

Getting It Right

Results of a random employee phone poll

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- Awareness & understanding
  - 96% of staff are aware of GiR (100% of managers)
  - 80%+ of staff were able to list at least one of the programme outcomes
- Commitment
  - Almost 100% of staff believe GiR will benefit customers and the organisation
  - 97% believe GiR will be good for customers
  - Our people expect to see real improvements within a year
  - Almost 80% of people believe they will see real improvements within the coming year, including 23% who expect to see real improvements within the next 6 months

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We help by talking to you in your language

Getting it Right

- Redesign of our systems and processes
- Improvements to meet the needs of our customers
- Convenience – save me time and make it simple
- Recognition – acknowledge me as an individual
- Value for money – explain where my money is going
- Clarity – help me understand

Getting it Right for our customers

- Identifies the caller using information entered by the customer via the phone
- Uses Computer Telephony Integration (CTI) to pre-fill customer details before the consultant answers the call
- Consultant confirms customer information with no additional keystrokes

Getting it Right for our customers

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- Automated underwriting during 2004
- National underwriting rules, guidelines and principles
- Easier to provide a price that accurately reflects policy risk every time

Getting it Right for our customers

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- New 'front end'
  - All direct products and all channels
- Efficient business processes – eg
  - Multiple quotes on one screen
  - Significantly reduces the number of questions
  - Use of known customer and asset information
- Flexibility to cater for customer needs and changes

Getting it Right for our customers

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- Single customer view by June 2004 for all existing general insurance customers
  - Data clean up
  - View all customer information
- Improvements and consistency in self-service channels
- All general insurance payments can now be paid on SGIO/SGIC/NRMA internet sites (sgio.com.au/sgic.com.au/nrma.com.au)

Getting it Right

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- More than 430 initiatives in train
- Improvements developed with our people's input
- Gradual improvements over the next 12 months
- Already delivering real benefits for our customers

Getting it Right

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Phase 2: April 2003 – December 2004

- 430 initiatives to be implemented
- Over 80 managers driving the activities
- Robust project tracking systems
- CEO & Group Executive sponsorship continues

Getting it Right

for our customers

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- Local print
  - Improvements already underway
  - Rolled into frontline areas by September 2003
  - Base stationery down to 4 pieces from 56
- Return to sender mail
  - 1,000 items per month received
  - New process has resulted in 85% success rate
- Pay by the month
  - New process for credit card payment
    - Dishonours decreased - advice time to customer from up to 2 months to 24 hours
  - Affects 1,200 customers a month

Getting It Right

for our customers

IAG Insurance Australia Group

- Delivering a single customer view & new 'front end'
  - 360° view of our customers
  - Access to this information enables us to re-design our sales process
    - ➢ Reducing processing time by 30%
  - Provides a national platform and a consistent outcome across all channels
  - Speed of service improvement
    - ➢ Reducing from 19 screens to 5
  - Provide frontline staff with information that allows them to treat each customer as an individual and resolve the customer enquiry at the first point of call

Getting It Right

for our customers

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(CTI) Computer Technology Integration

- Two stage process
  - Replacement of existing IVR technology with 'state of the art' systems that will enable IAG to automate substantially more of its telephone based business
  - Introduce CTI (screen popping) technology that will:
    - ➢ Reduce the need for call centre staff to engage in routine customer identification and data collection activities
    - ➢ Enhance the telephone customer experience by saving time through 'focused' self-identification
    - ➢ Provides the delivery platform to introduce Natural Language Voice Recognition

Getting it Right

for our customers

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- Development of customer focused high quality tender centres – 'white glove service'
  - Availability of value-added services such as valets
  - Improved repair quality through higher use of PSRs
- Automated underwriting – national standardisation
  - Standardisation of underwriting and product features
  - Moving to nationally consistent product set
    - Reduces complexity
    - Eliminates unnecessary duplication
    - Enables a consistent customer experience

Customer benefits

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- Targeting improvements in the key drivers of customer satisfaction
  - Easy and quick to get through to a person
  - A clear intuitive process to purchase or renew
  - Proactively explaining benefits
  - Problem solving
  - Convenient claiming – as streamlined as possible
  - Staff helpfulness and recognition of individual
  - Knowing the product

Customer benefits

- Getting it Right and behavioural change initiatives aimed to improve in these key areas of service delivery
  - Aim to increase by an average of 22% in FY04
- Benchmark performance identified
  - 6 monthly tracking and reporting to occur in FY04

People benefits

Key indicators from survey of our people

- Involvement — May 2002 – 47%, May 2003 – 72%
- Customer focus — May 2002 – 77%, May 2002 – 83%
- Around 70% believe we are managing change initiatives well and that these will deliver better performance
- Progress made – targets for FY04 now being set

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Live & breathe help

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Questions

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IAG Insurance Australia Group

Technology Services strategy

David Issa
Chief Information Officer

4 June 2003

Overview

IAG Insurance Australia Group

- Improving our business performance through technology
- Integration
- Technology transformation
  - Infrastructure – the IBM in-source
  - Applications architecture
- Benefits

Improving business performance through technology

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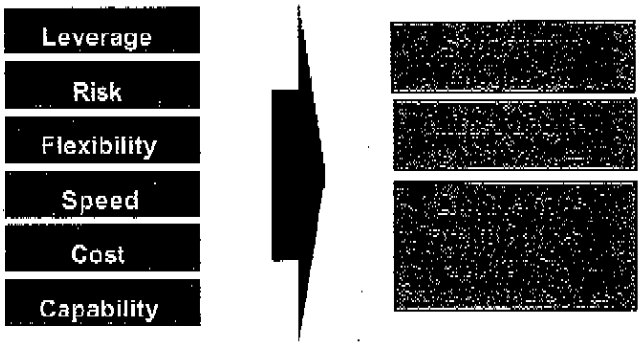
Balancing business priorities and technology transformation



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- Improving our business performance through technology
- Integration
- Technology transformation
  - Infrastructure – the IBM in-source
  - Applications architecture
- Benefits

Integration – supporting the business

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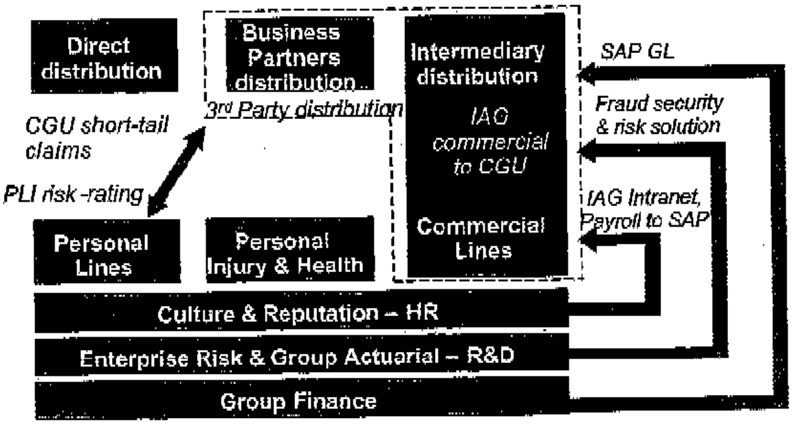
Optimising our business model to support the achievement of the $140m synergy benefits committed for Australia is on track



Integration – Technology Services synergy benefits

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Technology Services synergy benefits

Realisation is on target

- WAN rationalisation
- Rationalise software contracts
- Reduced cost of web hosting
- Leverage our Optus relationship
- FTE reduction

IAG Insurance Australia Group

- Improving our business performance through technology
- Integration
- **Technology transformation**
  - Infrastructure – the IBM in-source
  - Applications architecture
- Benefits

Technology transformation

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- A programme designed to simplify & update the technology environment
- Principles
  - Technology Services costs to be kept flat
  - Savings from initiatives undertaken will fund the investment in technology to support IAG's future competitive position.
  - A gradual process
  - The transformation will not compromise integration

IAG Insurance Australia Group

- Improving our business performance through technology
- Integration
- **Technology transformation**
  - Infrastructure – the IBM in-source
  - Applications architecture
- Benefits

Infrastructure – the IBM in-source rationale

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The programme	Rationale
• The desktop strategy	To better leverage resources and suppliers while gaining control over cost and service
• IBM in-source of service centre & support services	
• Mainframe peak load management, storage & software rationalisation	Add value by focusing on business issues not managing complexity
• Mid-range hardware platform rationalisation	Deliver integration benefits and transformation activities

Infrastructure – the IBM in-source desktop

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Update hardware
- All new desktops – next 12 months
- Compatibility and lower failure rates

Update software
- Moving to Office XP & Microsoft Outlook
- Consistency and reduced support costs

Service tools
- New self-help tools and service centre tools designed for remote service
- Reduced service costs and less downtime

Investigate future mobile computing
- Wireless capability, PDAs
- Better support for field staff

Infrastructure – the IBM in-source support

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Service desk
- A new service desk to be introduced
- Based on the current CGU model

Leverage CGU capability
- Staffed by our people

Service levels
- Designed to maintain agreed service levels

Handover and timeframe
- Incremental implementation/handover managed in partnership with IBM GSA
- Fully implemented by end of 2003

Infrastructure – the IBM in-source mainframe

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Rationalise and update	• Lease a new mainframe • Reduce the number down from 3
Consolidate the storage platforms	• One consistent preferred technology • Improved business continuity
Progressive in-sourcing from IBM	• Application by application by end of 2003 • One operations centre • Outsource data recovery services
Simplify the operating environment	• Software rationalisation, reducing licensing costs • Reduce utilities to optimise system performance and better manage resources

Infrastructure – the IBM in-source mid-range

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Hardware consolidation	• Reduce servers from ~55 to ~20 • Reduce hardware providers for better leverage
Consolidate the storage platforms	• Leverage technology across mainframe, mid-range & NT environment
Rationalise tools	• Reduce number of management & support tools • Move to an internal data centre

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- Improving our business performance through technology
- Integration
- **Technology transformation**
  - Infrastructure – the IBM in-source
  - **Applications architecture**
- Benefits

Applications architecture – long term end-state

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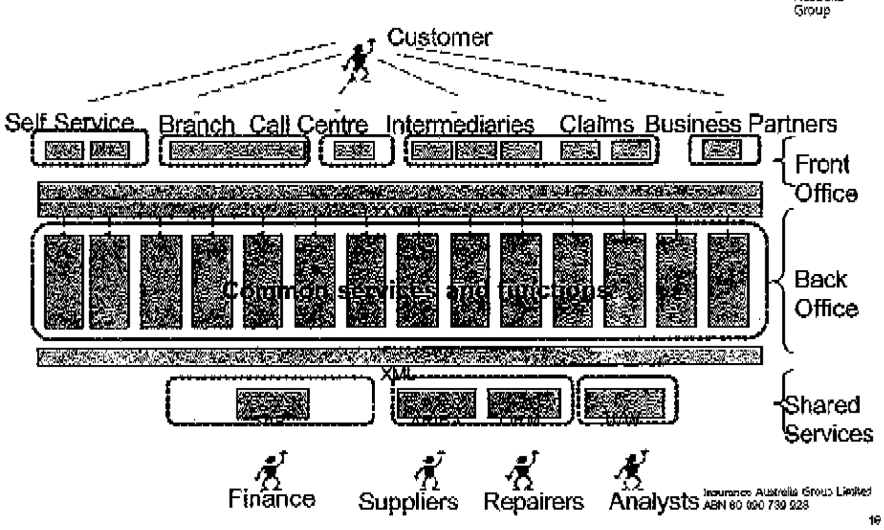

Applications architecture – supporting core competencies

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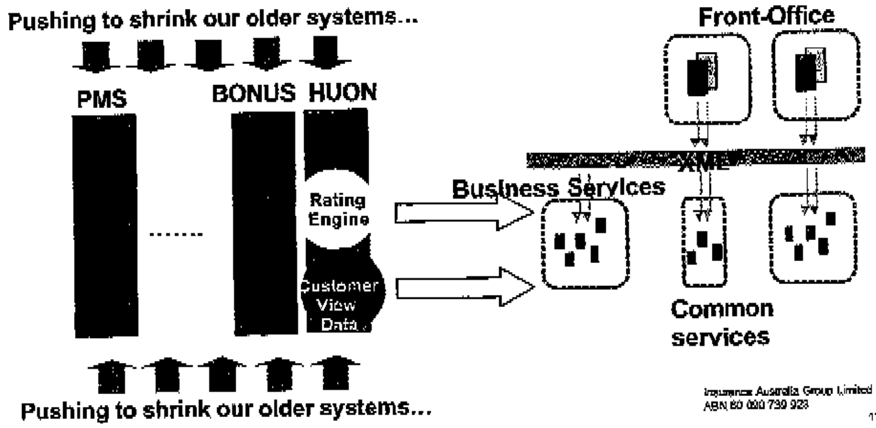
Key functions will be exported and redeveloped into discrete components



Applications architecture – supporting core competencies

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Supporting customer service and the value proposition

The single customer view

- Deliver tools to provide a single customer view for all existing general insurance by June 2004
- Provide uniform source of customer interaction information
- Integrate with all sales and distribution channels, product, fulfilment systems and claims processing
- Ensure customer experience is consistent
- Use existing customer information without duplicating information requests

Applications architecture – supporting core competencies

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Supporting customer service and the value proposition

End-to-end processes

- Develop new web-based front-end system, based on Sales & Marketing and manufacturing needs
- More flexible process model with fewer screens
- Leverages existing customer and asset knowledge to make more informed underwriting decisions
- Able to respond quicker to product changes and enhancements
- More user friendly and better help

Applications architecture – supporting core competencies

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Supporting underwriting and pricing for risk

Exporting the rating engine

- Utilise user-friendly standalone rating and acceptance engine, networked to multiple front-end systems
- Underwriters can run scenarios and change rating rules directly for immediate implementation
- Begin by implementing the Group's Personal Lines underwriting rules for CGU Personal Lines policies
- Able to respond quicker to product changes and enhancements
- Improves tactical response capability around pricing

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- Improving our business performance through technology
- Integration
- Technology transformation
  - Infrastructure – the IBM in-source
  - Applications architecture
- Benefits

Benefits

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- Achieve synergy benefits for CGU acquisition
- Reduce overall IT costs in the medium term
- Better leverage technology
- More flexible
- Faster
- Improved capability
- Better customer service

Part 4

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The impact of climate change on insurance

Tony Coleman
Chief Risk Officer & Group Actuary

4 June 2003

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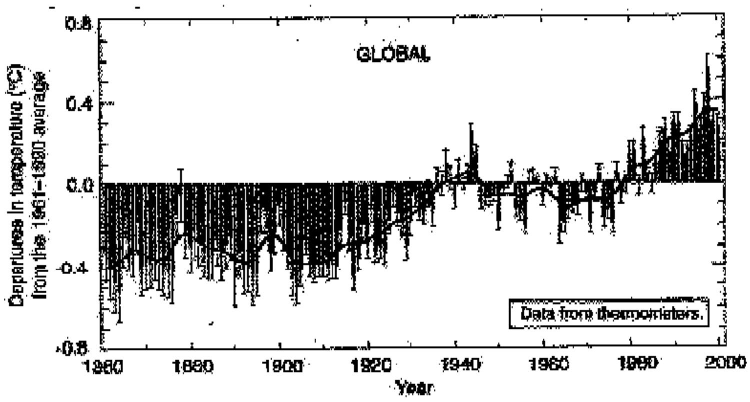
Overview

- Climate change - core business for insurers
- Storms & climate change – a case study
- Other implications of climate change
- Insurance Australia Group's response
- Summary

Global temperatures have increased



- 1990s the warmest decade &1998 the warmest year since records began
- Further increases are projected

Weather & climate are core business for insurers

- Insurers calculate, price and spread risk across the community
- Claims paid represent largest cost of an insurer (claims > 80% of home and motor premiums)
- If frequency or severity of claims increases insurers have to
  - increase premiums and/or
  - mitigate risk

  to stay viable
- Climate change is expected to increase BOTH the frequency and severity of claims incurred

Who will bear the costs of climate change?

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- Higher costs borne by the insured community via higher premiums
- Uninsured will bear losses directly unless government helps them
- If some risks become unaffordable to individual policyholders:
  - insurance cover will be eroded; and
  - the direct cost of disasters to the community and government will increase even more

A few extreme events cause majority of losses

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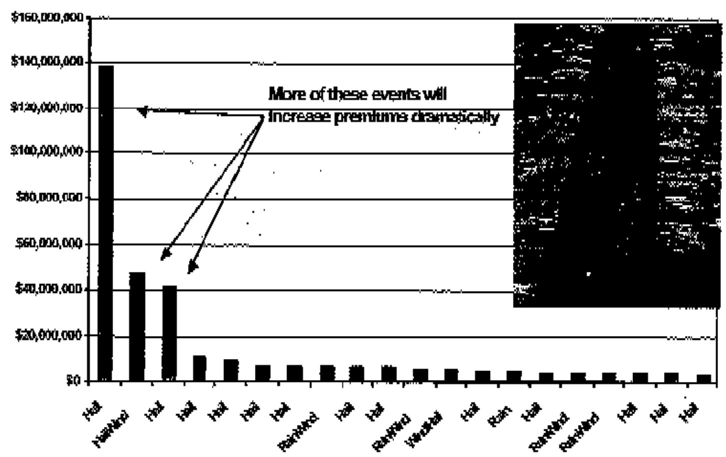

Source: NSW, NRMA Building Insurance - Top 20 Storm events 1987-2002

Small changes in mean climate can increase damages dramatically

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Hazard	Cause of change in hazard	Resulting change in damage/loss
Cyclones & storms	2.2 °C mean temperature increase	Increase of 5% to 10% in wind speeds
Drought	1 °C mean temperature increase	Significantly longer droughts because evaporation up 20%+
Floods	25% increase in 30 minute precipitation	Flood return period reduced from 100 years to 17 years
Bushfire	1 °C mean temperature increase	17% to 28% increase in bushfires

Small increases in wind speeds can significantly increase losses

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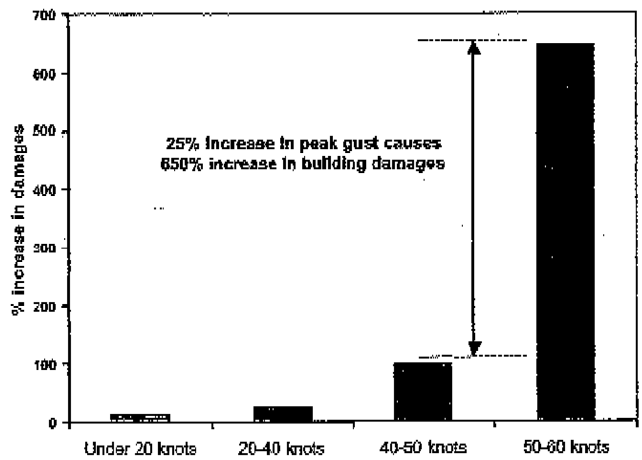

Source: NSW, NRMA Building Insurance only

Climate change – implications for insurers

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- Situation exacerbated by demographic and socio-economic trends
- More intense and/or more frequent extreme weather events such as
  - Floods
  - Thunderstorms and hailstorms
  - Cyclones
  - Bushfires

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Storms & climate change – a case study

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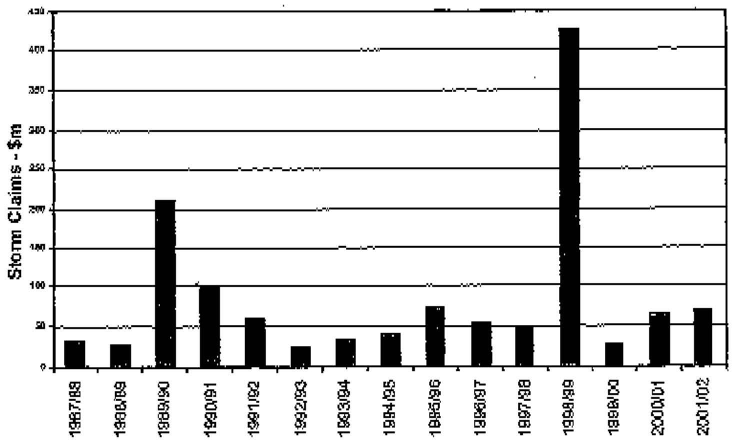
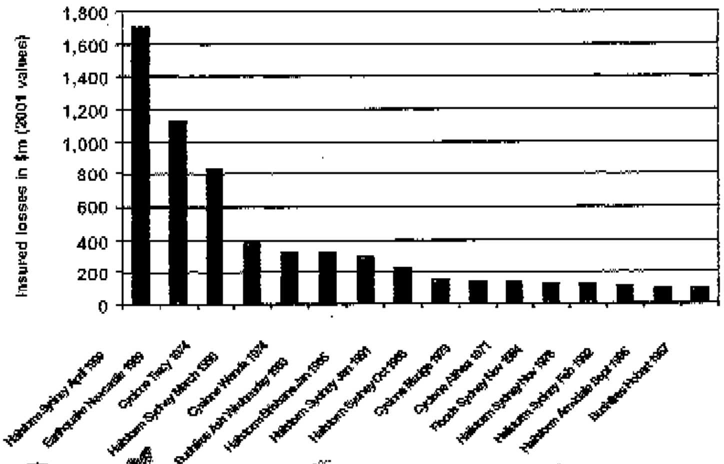
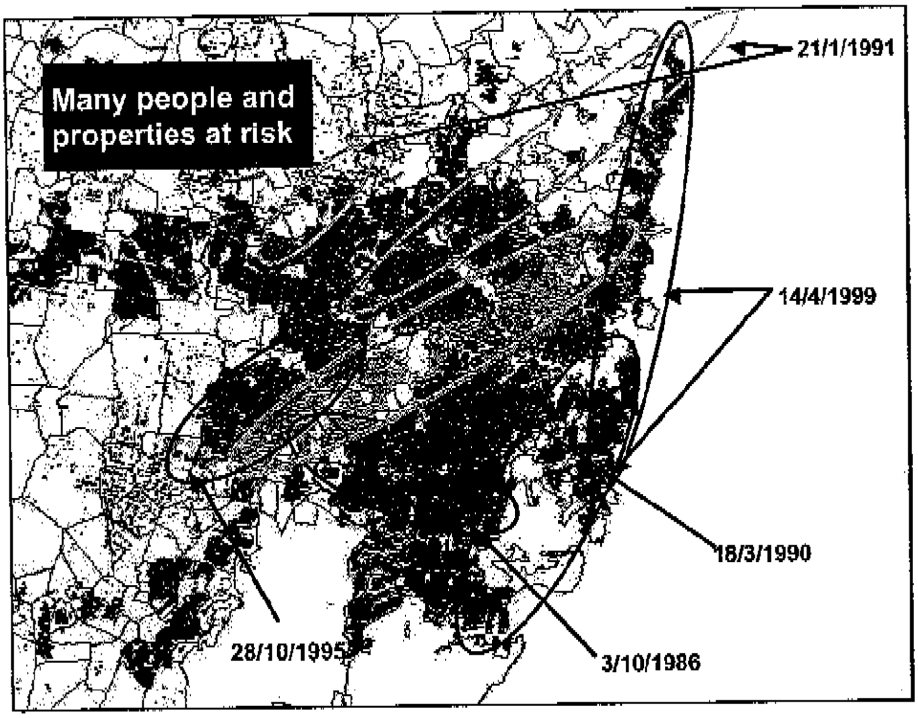
Historical annual losses from storm



Source: NSW, NRMA Insurance only

April 1999 hailstorm - highest Insurance loss from a natural disaster in Australia





How will hailstorms be affected by climate change?

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- Different implications under various climate change scenarios
- Very little research in this area at present
- Historical records become less relevant
- Modelling and capacity to predict become extremely important

Insurance Australia Group's storm modelling & climate change

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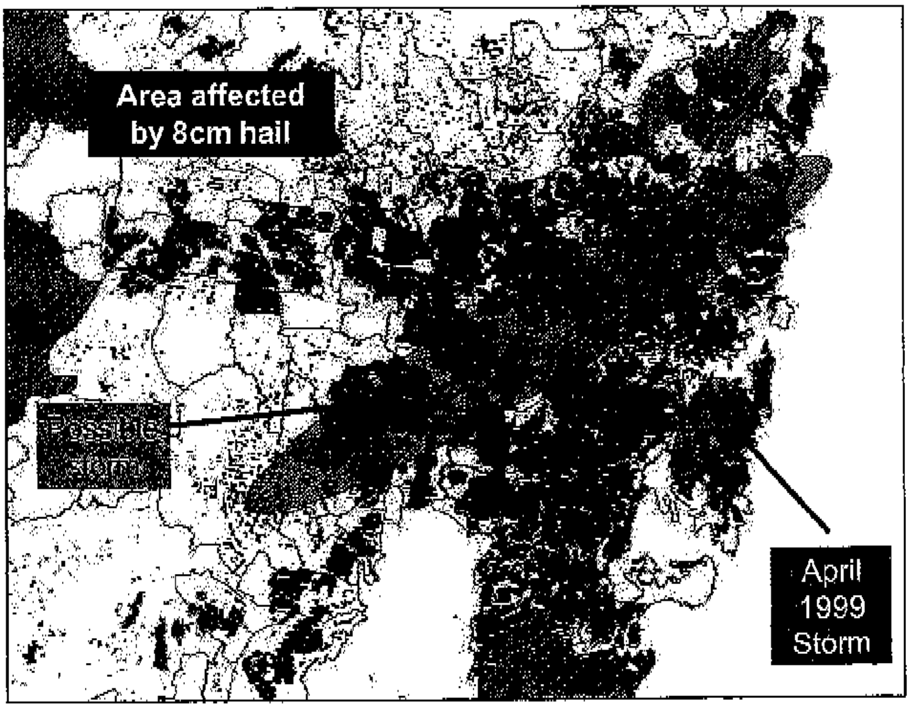
- Cutting edge modelling – using state of the art models and technical expertise
- Initial analysis based on the April 1999 event
- How much larger or more intense is possible?
- How will their characteristics and behavior change?
- How much more likely are they to occur?
- The answers were surprising!

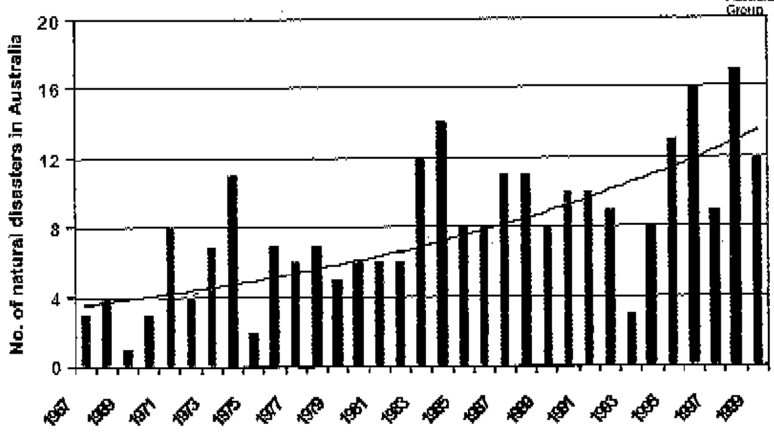


How could this happen?

- Produced by very small changes to three key parameters
  - Wind-shear
  - Sea surface temperature
  - Atmospheric stability
- Of these, sea surface temperature is absolutely related to climate change. The other two may be related
- This is a good example of how small changes in climate can have dramatic impacts

Other implications of climate change

Economic losses >$10m from natural disasters increasing in Australia



Source: National Disaster Response Organisation Australia

Global connections

- Climate change is a global phenomenon
- The insurance industry is inter-connected globally via reinsurance
- The price of insurance is in part determined by global dynamics
- Major weather events in North America and Europe (hurricanes/floods) will impact on the affordability of insurance in Australia
- The economic impacts of climate change do not stop at national borders

Number of global disasters is increasing

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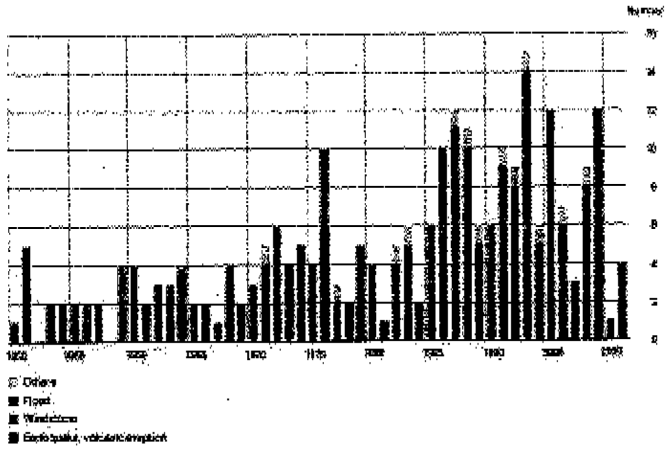

Source: Munich Re

Cost of global disasters is increasing

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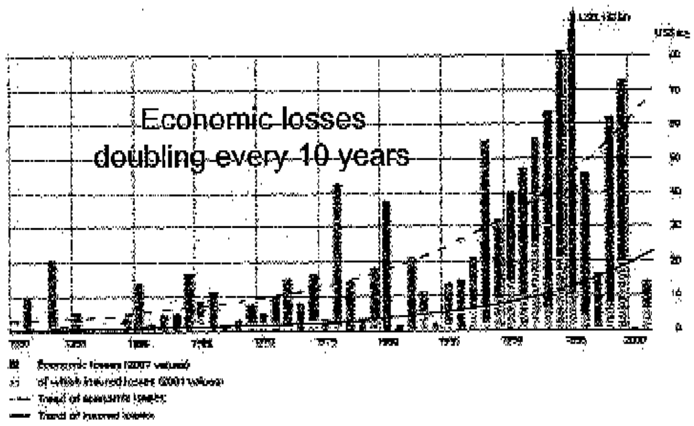

Source: Munich Re

Catastrophe reinsurance price index

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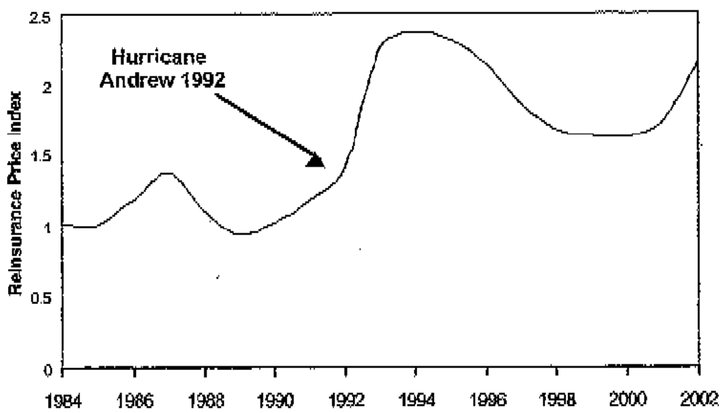

Source: Lloyds

Our response – research & policy

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- Research
  - Weather related risks and climate change impacts
  - New products and services that create business value and encourage sustainable behaviour
- Proactive policy
  - Support initiatives that reduce greenhouse emissions
  - Procurement policies that favour energy efficiency
  - Internal energy efficiency initiatives & KPIs
    - Measured as CO^2 per FTE
    - Aim for FY04 is to deliver the following reductions
      - 15% in paper used
      - 5% in fuel consumption
      - 5% in kilometres of air travel

Our response – public & stakeholders

- Risk reduction initiatives with our clients such as early warning broadcasts for storms
- Education programmes on sustainability issues
- Encouraging parts repair and recycling programs with Preferred Smash Repairers
- Advocacy around adaptation and risk mitigation

Summary

- Our business is directly connected to weather and climate and changes to it
- Small changes in climate can impact communities and increase damage dramatically
- As insurers of the risk, the industry is the barometer of the impact of climate change on the economy
- Adaptation is not enough, mitigation is also needed
- Insurance Australia Group is responding, but whole-of-economy and international action is also required

Culture & values

Mike Hawker
Chief Executive Officer

4 June 2003

Five year strategy announced in May 2002

- [illegible]
- [illegible]
- Leverage our capabilities
- Risk management
- Growing quality earnings

Core operations

- Deliver earnings
- Build capability
- Investigate & pursue

Emerging opportunities

Goals

- Top quartile total shareholder return
- ROE 13 – 15%
- Double gross written premium by FY 2007 to $6.6bn
- Maintain combined ratio < 100%
- Maintain 'AA' category rating

Our values

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Honesty
Meritocracy
Teamwork
Social responsibility
Transparency

Culture

"To create actions that support people development & a high performance culture."

People and processes

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- Evaluation
  - Talent management matrix
  - Balanced scorecard
  - 360 degree feedback
  - KPIs
  - 'In the Zone'
  - 'Your Voice'
- Remuneration
  - Performance-based

People and processes

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- Training & development
  - e-Learning
  - FSR
  - Leadership programmes
- Recruitment
  - National model being developed
- Safety
  - OH&S programme
  - Intention to be self-insured
- Internal communication
  - Transparent, two way and continuous

Talent management matrix

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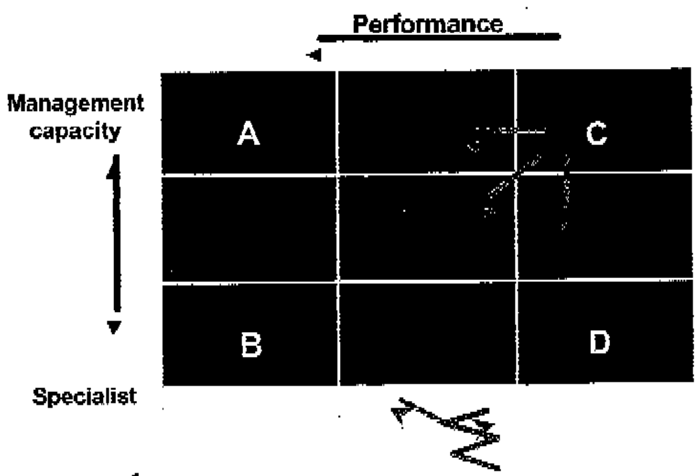

Employee engagement will support financial performance: case study

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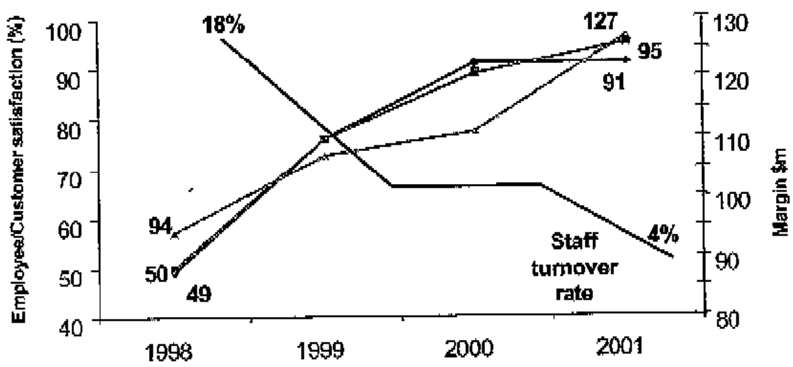
Hewitt's client: Performance 1998-2001



Leadership in the community

Major focus on risk mitigation, environment & safety

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- Government relations
  - HIH Royal Commission
  - Fire Services Levy
  - Other taxes
  - Tort law reform
  - Terrorism insurance
- Corporate relations & sponsorships
  - St John's Ambulance
  - KidSafe
  - State Emergency Services
  - Community Help program
  - CrimeSafe grants

Leadership in the community

Major focus on risk mitigation, environment & safety

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- Sustainability
  - Climate change
  - Environment
  - Safety
- Communication and engagement
  - Proactive media relations, eg Reversing Visibility Index
  - Joint initiatives and forums, eg Help Expo

Virtuous loop

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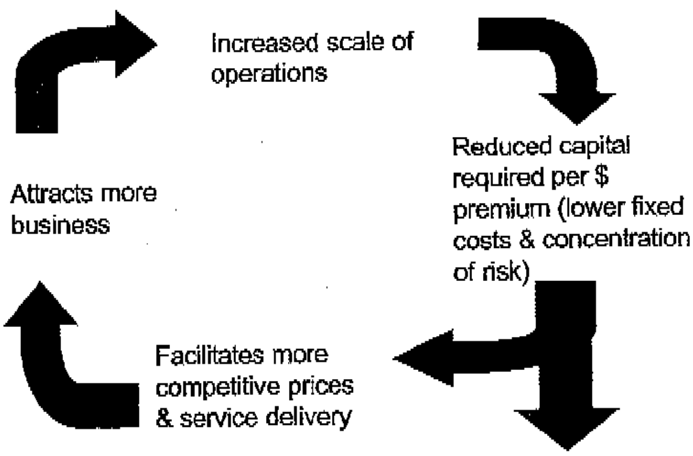

Our history

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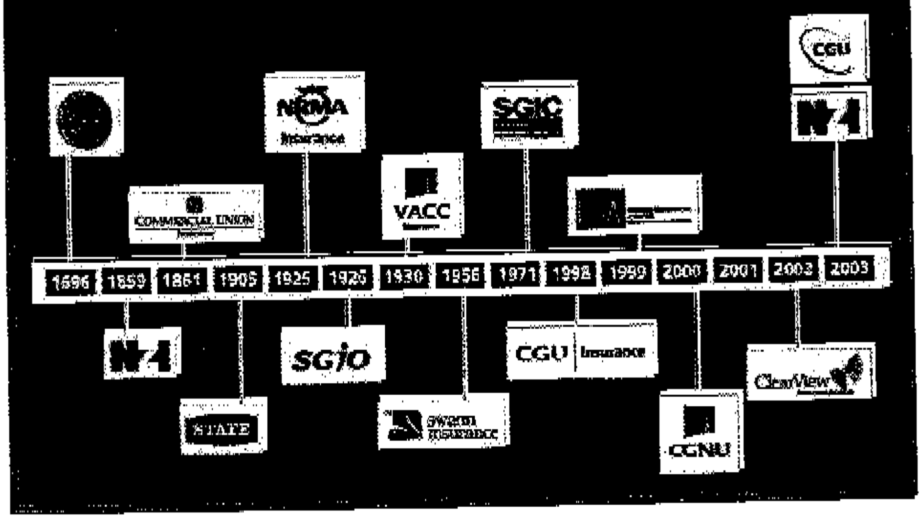

Conclusion & Questions

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Insurance Australia Group Limited
ABN 60 090 739 923

Important information

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